

**Five Years On: NAFTA and America's Trade Agenda in the Western Hemisphere
Border Trade Alliance
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Good evening. Thank you very much for inviting me to speak with you today.

It is now five years since the North American Free Trade Agreement, and five years before completion of the Free Trade Area of the Americas, or Area de Libre Comercio de las Americas (ALCA). This midway point is the ideal time to reflect on the road we have traveled thus far, and the challenges we will face before we reach its end. In light of developments in Brazil, a review is timely. Moreover, leadership will change soon in some of our most important neighbors. President Menem will leave office in Argentina after an immensely successful term; we do not know who will follow. President Frei of Chile is in his final year. President Chavez in Venezuela has just begun his term of office, under a cloud of uncertainties. President Pastrana of Colombia has just begun his, in the light of hope. The sixth year of President Zedillo's term, the sexenio, is coming soon. And of course the United States will elect a new President in just a little over 20 months. This evening, then, is a good time to review the NAFTA's progress thus far; outline our agenda for the NAFTA and the Americas in 1999; and then look ahead a bit.

AMERICAN TRADE AGENDA

But let me begin with a bit of context. America's trade interests are worldwide. Our goods exports are almost equally divided among four major trading regions: Asia, Europe, Latin America and Canada. Thus we have a worldwide trade agenda which takes in each part of the world, and the multilateral trading system which links it together:

- We will host the Third WTO Ministerial Conference this fall, kicking off a new round of negotiations on agriculture, services and other issues of immense importance to American farms, working people and investors, including 70 million individuals -- average women and men -- invested in equity mutual funds. Like farmers and workers throughout the United States, these individual investors have a serious interest in seeing the profits of the companies they are invested in expand through new sales in new markets abroad.
- We are leading an effort toward free and open trade in the Pacific by the year 2020.
- We have begun an ambitious program to improve our trade relationship with Africa.
- We are working to improve our trade relations with the European Union through the Transatlantic Economic Partnership.
- And we are at the forefront of the effort to negotiate the Free Trade Area of the

Americas/ALCA by 2005.

THE VISION

Each of these are important to the United States. But it is fair to say that we have no relationships more important than those which are closest to home.

In this respect we are a very fortunate country. For a century and a half we have enjoyed peace with our neighbors. That is a blessing almost unique in the world. All of us -- Americans, Mexicans, Canadians -- should be grateful for it. And in the past decade, we have been given an extraordinary opportunity to strengthen it; to deepen it; and extend it through the creation of a peaceful community linked by open trade and democratic values, which reaches throughout the Western Hemisphere.

This is an inspiring vision. It is, incidentally, hardly a new one. It has appeared in the past but was not realized. The Liberal vision shared by the leaders of Latin America's independence movements implied precisely such a step. Simon Bolivar himself was the first American leader to propose a hemispheric trade conference. Benito Juarez proposed a free trade agreement between the United States and Mexico in the 1850s. And in 1889, U.S. Secretary of State James Blaine actually convened a Pan-American conference in Washington, whose goal was hemispheric free trade.

These efforts failed. They failed not because of the complexity of the task -- a trade agreement in 1889, when the only issues were customs procedures and tariffs on agricultural products and manufactured goods, would in technical terms have been far easier than the task before our FTAA/ALCA Negotiating Groups today, as they take up copyright enforcement, insurance licensing standards, telecommunications, electronic commerce and much more of the trappings of the Information Age.

Rather, they failed because of a conflict of perceptions and ideas. Latin American intellectuals often viewed the U.S. as an interfering, hegemonic power; saw trade with the U.S. as exploitation; and concluded that the proper course was protection. As Enrique Krauze wrote in his history of post-colonial Mexico last year:

"The idea of the North American Free Trade Agreement was a violation of the Eleventh Commandment of official Mexican mythology: Thou Shalt Not Trust Americans."

Likewise, people in the United States at times looked south and saw only caudillos, guerrillas, and opportunistic politicians denouncing the *Yanqui* to mask inefficiency and corruption at home; and drew the same conclusion about hemispheric trade. The titles of books on Mexico and Latin America twenty years ago are very clear evidence of this: "Distant Neighbors," "Inevitable Revolutions," "Bordering on Trouble," and all the rest.

Thus, the separation of the Americas by trade barriers was perhaps a lesser obstacle than

the separation by barriers of psychology, perception and ideas. As Jose Marti said, commenting on Blaine's conference in an 1890 address just a few blocks from here:

“Las barreras de ideas son mucho mas fuertes que las barricadas de piedra” (“the barriers of ideas are stronger than barricades of stone”).

RESULTS OF NAFTA

This was the legacy our trade negotiators, our political leaders, and our citizens rejected when they approved NAFTA five years ago. It was a step which demanded courage and vision from all three countries.

In the U.S., of course, NAFTA heightened the profile of trade agreements in the public eye, but also border environmental problems, disparity between wage rates, and fears that American factories would move south. In Mexico and Canada, free trade with the United States raised even more profound questions.

But in all three partners, the results are impressive. Most important from a trade policy perspective, the NAFTA has eliminated a huge disparity in tariff rates and other trade barriers between us and Mexico. I do not need to tell you that bilateral trade with Mexico is booming, as is trilateral trade. Given our strong interest in export growth, it is worth noting also that this year we will export five times as much to Mexico as to China. We will export \$158 billion in goods to Canada -- as much as we will export to all the countries of East Asia put together. The fears of fleeing jobs have proven misplaced, despite best efforts by NAFTA naysayers to argue otherwise.

Since NAFTA passed, unemployment has dropped from 6.5% to 4.3% here in America. A lot goes into that figure -- but NAFTA is part of it, everywhere in the country. It represents --

- Casas International Brokerage, a customs broker in San Diego, seeing business double since 1994 and adding 100 employees.
- Taylor Dunn, a manufacturing firm in Anaheim which makes electrical vehicles, adding fifty workers because NAFTA cut Mexico's tariff on their products from 25% to zero.
- Multiplier Industries in Mt. Vernon, New York, increasing its employee base by 25% as its exports of cell phones and two-way radios to Canada and Mexico rise.
- Farmland Industries of Kansas City, the largest farmer-owned cooperative in North America, who sold \$50 million in wheat, corn and soybeans to Mexico before NAFTA, today is exporting \$450 million and include beef and pork.

The State of Texas has been a beneficiary of NAFTA as well. Overall, Texas exports rose to \$86.85 billion in 1998. Due to declines in Asian and Latin American markets held that growth to its lowest rate of the 1990s, the state's export growth was fueled almost solely by increased sales to Mexico and Canada, which ranked first and second among customers for Texas goods.

Mexico bought \$36.33 billion in Texas exports, up 16.5 percent from 1997, and exports to Canada rose 8.3 percent to \$10.33 billion. Texas exports more than \$4,000 per capita, compared to the U.S. average of about \$2,500.

Other fears have also been laid to rest. Wages have risen -- growing by 5.2% between 1992 and 1998, after a long period of decline.

American firms neither bolted south, bolted north, nor burrowed straight down. Instead they have increased investment everywhere. They have invested \$35 billion in Mexico and \$99 billion in Canada. Part of this is because NAFTA is eliminating requirements that forced U.S. firms to invest in Mexico if they hoped to sell in Mexico. Neither of these figures is large, incidentally, compared to non-residential investment here in the U.S.A., which reached nearly \$1 trillion last year. In the U.S. is still, by far, the largest recipient of Foreign Direct Investment in the world.

In a larger sense, the NAFTA has helped create a more competitive North American market, which can stimulate more investment that benefits us all. Investment decisions can now be made to a greater degree on rational economic and commercial grounds than was the case prior to the NAFTA. The auto sector, in which employment rose by 136,000 between 1993 and 1997 in the US (and by 17,000 in Canada) while declining in Mexico, is a significant example.

The NAFTA's role in protecting us from the worst effects of the Asian financial crisis has been just as important as its direct benefits. By bringing down, keeping down, and even lowering further, tariffs and other barriers, it allowed our exports to Mexico and Canada to grow by \$13 billion in 1998. Mexico has now surpassed Japan as our number two partner even though its economy is one twelfth the size of Japan's. We now export three times as much to Canada as to China, Hong Kong and Taiwan combined. As our exports to the Pacific Rim dropped by \$30 billion last year, this growth protected jobs in manufacturing, farm and service sectors, and incomes of blue and white collar workers, Democrats and Republicans, whites, blacks, and Hispanics -- all across America.

More lies ahead. NAFTA's implementation by Mexico will not be complete until 2008. We are monitoring progress closely and we are learning from our experience, using it to improve the agreement as it goes into force. Our trilateral work program has more than 25 committees and working groups, each advancing the work of the Agreement. We have made an effective trilateral work program a priority and put in place a new high level oversight mechanism within our three Governments.

No trade agreement, of course, can put an end to all our disputes. We have yet to resolve our concerns on land transportation, for example, but we are continuing to try. Furthermore, we have very important issues pertaining to corn syrup and sugar, and telecommunications barriers with Mexico. And we want to work together to address the nemesis of piracy in the area of intellectual property rights, particularly copyright piracy. Progress has been made on this front, and we applaud the steps the Zedillo Administration has taken, while we wait for the Mexican Congress to provide for the Administration's new measures in their budget.

With Canada we have serious concerns on a range of agriculture matters and major market access impediments facing our magazine publishers and other media and entertainment industries. Furthermore, we have the ongoing challenge of enforcing our largest bilateral sectoral agreement anywhere in the world - the U.S. - Canada Softwood Lumber Agreement. These are all flashpoints that require shrewd management and calm heads.

But through the cooperative framework we have built through the NAFTA, we have avoided or solved many disputes. For those that remain, the question is how far we have to go to solve them and how fast to do it. On our fifth anniversary, it can nonetheless be said that from a trade policy perspective, there is no question that the NAFTA has advanced U.S. objectives in Mexico and Canada in a truly unprecedented and invaluable manner.

BEYOND TRADE

Of course, in our relations with our immediate neighbors, we have concerns that extend well beyond trade. We expect that with growth will come a high quality of life and the advance of basic values -- clean air, clean water, public health and protection for our natural heritage; safety, dignity and elementary rights for working people; a common front against crime and corruption. NAFTA has allowed us to improve our working relationship with Mexico in these as well. We have huge challenges that are not yet addressed; but the NAFTA and its side agreements put us in a better position to deal with them.

Environmental protection is an example. Through the Commission on Environmental Cooperation, created by NAFTA's environmental side agreement, we have reached agreement with our neighbors on conservation of North American birds and created a North American Pollutant Release Inventory. The CEC has also helped us devise regional action plans for the phase-out or sound management of toxic substances, including DDT, chlordane, PCBs and mercury. Important cooperative work is also underway on environmental enforcement, as the Environmental Protection Agency has trained hundreds of Mexican environmental officials in the past five years, and Mexico has substantially increased its budget resources and inspections related to environmental law compliance since the NAFTA passed.

Likewise, the North American Development Bank has begun fourteen projects in border towns which will reduce water pollution and improve health on both sides of the border. To choose an example close to home, Juarez broke ground last November for its first waste-water treatment plant. That is going to mean better health and cleaner water for a million people in Juarez, another million in El Paso, and for towns and villages all along the upper Rio Grande. A similar project has opened on the American border near San Diego and Tijuana, which will remove effluents from the water which were being emitted well before NAFTA, at the very point where my parents crossed into the U.S. to become citizens of this great country 52 years ago.

In this important area of environmental improvement, as with the reduction of barriers to trade in goods and services, NAFTA is incomplete -- it remains a work in progress. Yet, as the *Dallas Morning News* pointed out in its editorial on January 4 of this year, NAFTA is "the 'greenest' commercial pact ever, and the U.S. Canadian and Mexican environments are better off

with it than without.” NAFTA has represented a significant step forward in the environmental aspects of trade.

On the labor front, NAFTA’s Agreement on Labor Cooperation has generated our largest cooperative effort on labor we have in the world, covering occupational safety and health, employment and training, industrial relations, worker rights and child labor and gender issues. It has allowed citizens to draw attention to labor practices and improve working conditions. We believe this part of the agreement, administered in the United States by the Department of Labor, has been helpful. It has brought increased public scrutiny on the subject. We all three undertook these obligations with those objectives understood.

We sometimes only hear about labor problems in the press. But progress on this front in Mexico has occurred. For example, a labor tribunal reversed itself and granted a union registration in the Maxi-Switch case; a secret ballot union representation vote was conducted for the first time in Mexico in the GE case, and by government employees in the Fisheries Ministry. Mexico’s Federal Government intervened in an effort to resolve the very contentious Han Young case; and the Mexican Supreme Court struck down state restrictions on union organizing as unconstitutional. In addition, Mexico has taken other steps to advance the rights of workers, including promulgating new safety and health regulations and nearly tripling funding for enforcement of worker rights, including in child labor.

Altogether, the NAFTA has created high-wage jobs in all three countries. Growth generally helps create jobs, and fair competition and trade create better jobs. The results are substantial -- goods exports to Canada and Mexico support 2.6 million jobs. NAFTA did not create them all, and one should not say the more competitive environment created since NAFTA has not claimed some jobs. But trade is but one factor overall in job dislocation in the United States, with technology and other factors much more important. A recent study by the Bureau of Labor statistics in the Department of Labor indicates that the number of workers displaced for any reason is now declining in the U.S. economy. And on the whole, the record since NAFTA’s passage -- declining unemployment, rising wages, rapid growth -- speaks for itself.

The bottom line on NAFTA? It has helped our country prosper. It has dramatically expanded the volume of American-made goods and services sold to Canada and Mexico. It has reduced the damage the Asian financial crisis has caused in our country and our continent. It has encouraged us to work more closely than ever before with our neighbors on crucial topics from narcotics to environmental protection and improvement of labor standards. It is a winner. I am proud of it. And I am determined to tell its story wherever I go.

WHERE TO NEXT?

This brings me to our agenda for 1999 and the next five years. In detail our plans may be complex, but in essence they are simple:

We will apply the many lessons we have learned in our experience with Mexico and Canada over the past five years.

We will listen to and take up the best practices of our neighbors in the Caribbean, Central America and South America with their own economic integration projects, from Mercosur to the Andean Community, the Central American Common Market and CARICOM.

And we will use this experience to create the largest free trade area in the world: a zone of peace, democracy and prosperity extending from Point Barrow to Tierra del Fuego, and from the Hawaiian Islands to the eastern tip of Brazil.

CARIBBEAN BASIN INITIATIVE ENHANCEMENT

This has begun this year as we seek Congressional approval of an enhanced and improved Caribbean Basin Initiative.

CBI has already helped promote growth and prosperity in the Caribbean by helping its 24 beneficiaries diversify from volatile, low value-added commodities. And it has helped the U.S. Since the creation of the program in 1983, in fact, our exports to the CBI countries have grown by more than our exports to China.

The next step is an expanded program, giving the CBI countries benefits similar to those of the NAFTA. As with the bill we supported last year, we believe these should be conditioned on the adoption of economic and trade policies which help them prepare early for full reciprocal free trade under the FTAA/ALCA. It will be especially timely for countries hit by the Hurricane Mitch last November.

PROGRESS TOWARD FTAA

Next, as directed by the Miami and Santiago Summits, we are working with our 33 FTAA partners including Mexico, Canada, and the CBI countries, to achieve "concrete progress" toward the FTAA by the end of 1999. This should include agreements this year on concrete and mutually beneficial business facilitation measures. These could include a code of conduct for customs integrity; improved customs procedures for express shipments; transparency and due process in government procurement; or mutual recognition agreements in the licensed professions.

Also this year, our nine Negotiating Groups will work toward completion of "annotated outlines" -- a demonstration of specific work to be undertaken -- in each FTAA area: from market access to intellectual property; government procurement; investment; agriculture; services and so on. Thus, this year we will go beyond political statements and goals to discuss and build consensus on the issues crucial to a comprehensive hemispheric trade agreement.

FTAA RESULTS

From there we will move on, targeting 2005 as the year we will complete a rigorous, comprehensive trade agreement, expanding trade, accelerating growth, attracting investment from all over the world and cementing our strategic position in the hemisphere. Its benefits for all of us will be immense:

-- We need to raise living standards. Families will benefit from a wider availability of goods and services, with better quality and lower prices. Domestic firms in each FTAA member country will become more efficient as they more easily import capital and informatics goods -- and employ the higher technologies that become available when intellectual property protection improves. And government will be more economical in providing services through international standards of open and fair procurement practices. Even local monopolies and other anti-competitive practices will diminish as we advance negotiations in competition policy.

-- We will encourage competition, transparency, and impartial regulation in and continued deregulation of the service industries -- financial systems, telecommunications, insurance, construction, the professions and more -- that are basic to an advanced modern economy. Improving productivity in these fields inherently encourages productivity gains in the overall economy. Equally important, helping to ensure that financial institutions are sound makes future financial crises less likely.

-- We will develop enhanced means of resolving trade disputes. This is important both in purely commercial terms and for improved overall relations.

-- We will be more effective in addressing our mutual trade concerns with trading partners outside our region. For example, the FTAA negotiations on agriculture, which are addressing subsidies and other trade distorting practices in agriculture, can lead to more cohesive Western Hemisphere participation in the WTO agriculture negotiations set to begin this fall.

-- And finally, we will strengthen the values of openness, accountability, and democracy which themselves make the FTAA possible. For the first time in any major international trade negotiation, we have created a Committee on Civil Society to advise governments on the views of business, labor, consumers, environmentalists, academics and other citizen associations. Thus, both the negotiations and the FTAA can strengthen, throughout the hemisphere, the sense of mutual benefit, citizen participation, shared values and common destiny which today allow the three nations of North America to live together in peace and prosperity.

CONCLUSION

We have a long way to go before we get there. But with the success of NAFTA; with the Summits in Miami and Santiago; with the commerce and cultural exchange that grow every day; we have already left the days of “distant neighbors” and “inevitable revolutions” far behind.

Before us is an inspiring vision: A community of common interests in prosperity; jobs; and economic growth; of common aspirations for better health; environmental protection, and cultural exchange; and of common values, in a hemisphere united by democracy, freedom, social justice, and the rule of law.

For the first time in two centuries, it is within our grasp.

We must not let it slip away.